

Message Text

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TAGS: EAIR, UK

SUBJ: CIVAIR - AIRLINE CAPACITY RATIONALIZATION ON
NORTH ATLANTIC

1. KEMMIS, ASST SECRETARY, DEPT OF TRADE, TOLD US TODAY THAT UKG VERY DISAPPOINTED BY LACK OF PROGRESS BY IATA ON NORTH ATLANTIC FARES AND BY US AND UK CARRIERS IN CAPACITY RATIONALIZATION NEGOTIATIONS. IN LATTER CONNECTION, KEMMIS SIAD UKG HAVING DIFFICULTY IN ALIGNING VIEWS EXPRESSED BY SENIOR USG OFFICIALS ON ONE HAND TO EFFECT THAT AIRLINES MUST CUT BACK CAPACITY TO ATTAIN AT LEAST BREAKEVEN LOAD FACTORS AND, ON OTHER HAND, POSITION STATEMENTS OF PANAM IN AIRLINE CAPACITY TALKS TO EFFECT THAT IT UNWILLING TO REDUCE CAPACITY BECAUSE OF CONCERN IT MAY LOSE PART OF ITS PRESENT MARKET SHARE. BRITISH BELIEVE THAT IN THE REALITY OF THE NORTH ATLANTIC MARKET THE TWO POSITIONS ARE INCOMPATIBLE.

2. KEMMIS TOLD US UKG SUFFICIENTLY CONCERNED ABOUT FARES AND CAPACITY SITUATION TO SEEK CONSULTATIONS WITH US BEFORE END OF AUGUST IF POSSIBLE. HE GAVE US COPY OF DRAFT AIDE MEMOIRE REQUESTING TALKS WHICH HE SAID UK EMBASSY WASHINGTON WILL BE ASKED TO DELIVER AUGUST 14 OR 15. DRAFT READS AS FOLLOWS:

QUOTE. (USUAL BEGINNING ...) AND WISHES TO REFER TO
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THE RECENT INFORMAL DISCUSSIONS BETWEEN MEMBERS OF THE

STATE DEPARTMENT AND UNITED STATES CIVIL AERONAUTICS BOARD AND THE UK GOVERNMENT ON 31 JULY. AT THESE DISCUSSIONS HMG EXPRESSED CONCERN OVER THE DIFFICULTIES THAT ALL AIRLINES WERE LIKELY TO FACE ON NORTH ATLANTIC ROUTES FOR THE WINTER OF 1974/75 UNLESS THERE WAS AGREED RATIONALIZATION OF CAPACITY BETWEEN AIRLINES. IN ADDITION THERE WAS DISCUSSION OF THE DIFFICULTIES THAT AIRLINES WOULD FACE UNLESS THERE WAS AN EARLY RESOLUTION OF THE FARES AND RATES TO BE CHARGED ON SCHEDULED SERVICES AND THE PROBABLY NEED FOR A MINIMUM RATE FOR PASSENGER CHARTER SERVICES. IT WAS UNDERSTOOD THAT THE US REPRESENTATIVES GENERALLY AGREED WITH THE CONCERN EXPRESSED BY THE REPRESENTATIVES OF HMG. IT WAS AGREED THAT FURTHER CONSIDERATION MIGHT NEED TO BE GIVEN TO THIS WHEN THE RESULTS OF INTER-AIRLINE TALKS ON CAPACITY AND FARES BECAME KNOWN.

ALTHOUGH THERE HAS BEEN LIMITED AGREEMENT ON RATIONALIZATION OF CAPACITY ON CERTAIN ROUTES BETWEEN THE UK AND US SCHEDULED SERVICE AIRLINES, HMG BELIEVES THAT THE UNRESOLVED DIFFICULTIES CONSTITUTE A MOST SERIOUS PROBLEM. AIRLINES HAVE APPARENTLY BEEN UNABLE TO COME TO AGREED RATIONALIZATION SOLUTIONS ON MARKETS BETWEEN THE UK ON THE ONE HAND AND NEW YORK, BOSTON AND MIAMI ON THE OTHER. IN ADDITION THERE HAS BEEN NO RATIONALIZATION OF THE TOTAL AMOUNT OF CARGO CAPACITY WHICH WILL BE PROVIDED BETWEEN THE UK AND US AS A WHOLE.

AIRLINE DISCUSSIONS ON FARES HAVE YET TO REACH ANY SATISFACTORY SOLUTION AND NONE NOW SEEMS LIKELY BEFORE MID-SEPTEMBER AT THE EARLIEST. EVEN IF ONE IS REACHED BY THAT DATE IT SEEMS POSSIBLE THAT GOVERNMENTS MAY NOT BE ABLE TO APPROVE ANY SUCH AGREEMENT AS IT STANDS. THIS WILL PUT ALL AIRLINE SCHEDULED SERVICE ARRANGEMENTS IN DIFFICULTY SINCE THEY WILL BE UNABLE TO PLAN ADEQUATELY OR TO EQUATE CAPACITY ARRANGEMENTS WITH AN ECONOMIC REVENUE RETURN.

UNDER THESE CIRCUMSTANCES HMG BELIEVES IT IS NECESSARY FOR GOVERNMENTS TO INDICATE CLEARLY TO THEIR LIMITED OFFICIAL USE

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AIRLINES SOLUTIONS TO CAPACITY AND FARES PROBLEMS WHICH THEY BELIEVE WILL LEAD TO INDUSTRY LOAD FACTORS AND REVENUE RETURNS LIKELY TO ENABLE WINTER 1974/75 SERVICES TO SET AN ECONOMIC BASE FOR FUTURE NORTH ATLANTIC OPERATIONS. HMB THEREFORE CONSIDERS THAT VERY EARLY TALKS WITH THE US AUTHORITIES ON THIS SUBJECT ARE ESSENTIAL AND SUGGESTS THAT THESE SHOULD BE HELD BY NOT LATER THAN THE LAST WEEK IN AUGUST 1974. WHILST

HMG BELIEVES THAT THE ABOVE MATTERS ARE THOSE WHICH IT
IS ESSENTIAL TO RESOLVE AT THESE MEETINGS, IT IS OF
COURSE READY TO CONSIDER ANY OTHER PROBLEMS WHICH THE
US AUTHORITIES WOULD WISH TO INCLUDE AT THESE DISCUSSIONS.
(USUAL ENDING) UNQUOTE.
SOHM

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